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SUBJECT: KamAir Moves Forward on Safety But Warns of Bankruptcy

REF: A) 08 Kabul 496
B) 09 Kabul 2667

¶1. (SBU) Summary: Afghanistan's third largest private air carrier, KamAir, has improved its safety procedures, but continues to lose money. The company's president has long complained of unfair Afghan Government support for state-owned Ariana Airlines, and believes another rival sets artificially low prices with support from a bank with questionable lending practices (a similar conclusion reached by Safi Airline executives). A tax dispute with the Afghan Government also contributes to KamAir's financial woes. The airline now loses between \$300,000 and \$500,000 per month and its president warned of impending bankruptcy. End Summary.

"We Have Two Enemies: The Afghan Government and Kabul Bank."

¶2. (SBU) KamAir President Zamarai Kamgar told econoff September 16 Afghan Government support for Ariana and Kabul Bank's extensive financial support of rival Pamir Air is pushing KamAir to the brink of collapse. According to Kamgar, Pamir Air, owned by Kabul bank, has regular onboard cash raffles on its Kabul - Dubai flight. Its prices on this competitive route are consistently lower than rivals. Kamgar alleged Kabul Bank is using its deposit base to subsidize Pamir Air without its depositors' knowledge in an attempt to drive rivals out of business. (Comment: other airlines have alleged Kabul Bank illegally supports Pamir Air (Ref B). Emboffs have discussed concerns about Kabul Bank's lending practices and unprofitable business ventures with Ministry of Finance and Central Bank officials. The International Monetary Fund has expressed similar concerns. End comment.)

¶3. (SBU) Government support for state-owned Ariana Airlines further erodes KamAir's earnings, Kamgar said. An agreement between Afghanistan and India exempts state-owned airlines from taxes, forcing KamAir to include taxes in ticket costs and to lose passengers. He also protested Ariana's monopoly on ground handling services at Kabul International Airport. KamAir and Safi Airlines purchased their own ground handling equipment but are forbidden to use it. (Comment: Airport ground handling services will soon be privatized, but a single contractor will conduct all ground handling services. KamAir did not bid on the contract. End comment.)

¶4. (SBU) Combined with increased competition from Ariana and private airlines like Pamir Air, Kamgar said KamAir is in financial trouble and only remains operational due to subsidies from owner Kam Group's other businesses. He could not say how long the airline can continue to operate at a loss.

Tax Troubles

¶5. (SBU) Ministry of Finance officials said KamAir has not paid taxes for the last two Afghan fiscal years. The Ministry cancelled the installment payment plan for KamAir's back taxes in September and initiated enforcement proceedings. Kamgar said the Afghan

Government has attempted to levy a 10 percent tax on each passenger, which is illegal and has been referred to President Karzai for resolution. He says KamAir will pay the tax when the rate is reduced to 2 percent, which is what Ariana pays as a state-owned airline. He added he is waiting for the Ministry of Public Works to pay a \$200,000 road paving bill to another Kam Group company, which he will use to pay KamAir's back taxes.

Safety Certification Improves

¶6. (SBU) After failing a Ministry of Transport safety audit conducted by International Civil Aviation Organization (ICAO) contracted inspectors early in 2009, the airline improved its practices and was certified in compliance with Afghan and international standards by the Ministry of Transport on September 16, Kamgar said. He introduced American Frank Nelson as KamAir's new Director of Operations. Nelson noted he is exploring a potential International Air Transportation Association (IATA) audit, which would enable KamAir to join an airline alliance.

New Routes

¶7. (SBU) Kamgar said he is not considering eliminating the unprofitable Kabul - Dubai route at this time. The airline will add service to Al Ain in the United Arab Emirates soon, and is applying for landing slots at Amsterdam-Schiphol and London (although Kamgar could not specify which London airport). The airline will also expand its domestic routes, which should be profitable due to the danger of road travel, Kamgar said. Ninety percent of the airline's passengers are foreign.

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¶8. (SBU) Comment: Kamgar blamed his competitors rather than his own management decisions for KamAir's predicament. For example, he appeared unknowledgeable about which KamAir routes generate more revenue than others. His fixation on his competitors' alleged misdeeds may well obscure a real problem, namely, KamAir's unpopular routes and high operating costs. Compounding management problems, his new Director of Operations (with whom he does not share a common language) seemed unaware of the airline's financial problems. End comment.

EIKENBERRY